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Grain and Feed Update

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Report Highlights:

Total production of wheat, barley, corn and oats is forecast to increase almost 8% in 2012/2013, increasing to 50.3 million metric tons (MMT) from 2011/2012 total production levels of 46.7 MMT. This production increase is for the most part attributable to a return to drier planting conditions after two years of very wet spring planting conditions in many part of Western Canada. In late December 2012, Canada introduced legislation that will result in an open market for wheat and barley for Western Canadian farmers. The Canadian grain industry is easing slowly into the transition as there are some court challenges that have introduced some uncertainty into how the transition will unfold.

EXECUTIVE SUMMARY

Total production of wheat, barley, corn and oats is forecast to increase almost 8% in 2012/2013, increasing to 50.3 million metric tons (MMT) from 2011/2012 total production levels of 46.7 MMT. This production increase is for the most part attributable to a return to drier planting conditions after two years of very wet spring planting conditions in many part of Western Canada. Exports of wheat are forecast to rise a slight 3% from year 2011/2012, with expected export levels of 17,4 MMT. Barley production is forecast to rebound and reach 9 MMT in 2012/2013. There is some speculation that changes to the Canadian Wheat Board may result in more volatility in domestic feed barley prices because producers will have the ability to take advantage of sudden high prices overseas. Corn production in 2012/2013 is forecast to lift slightly to 11.2 MMT from year 2011/2012 levels of 10.7 MMT. This forecasted 5% increase is due to less area seeded to winter wheat in Quebec and Ontario due to soggy fall planting conditions in 2011. Oats production is also expected to rebound in 2012/2013 as a result of drier planting conditions. In late December 2012, Canada introduced legislation that will result in an open market for wheat and barley for Western Canadian farmers. The Canadian Grain industry is easing slowly into the transition as there are some court challenges that have introduced some uncertainty into how the transition will unfold.

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WHEAT:

Production

There is much speculation on how recent regulatory and structural changes to the Canadian Wheat Board will affect planting decisions for wheat in 2012/2013. Post does not anticipate a dramatic increase in wheat acreage since wheat acreage has been following the same trend as wheat acreage in the United States and other parts of the world. In Canada, wheat acreage has been declining and wheat is viewed as a part of the rotation. Although still very early, Post forecasts a moderate increase in production resulting from a return to better planting conditions after the challenging planting conditions experienced for the last two planting seasons. Post forecasts wheat acreage to increase to 26,500 thousand metric tons (TMT) in 2012/2013. This represents a 5 % increase over 2011/2012 levels of 25,261 TMT and a 7% increase over the five year production average of 24,736 TMT.

Trade

Imports

Wheat imports in 2012/2013 are forecast to decrease by 5% as a result of an increase in supply due to a forecast increase in production. Imports are forecast to drop to 410 TMT. Regulatory changes to the Canadian Wheat Board are not anticipated to result in an increase in wheat imports in 2012/2013. U.S. share of wheat imports is expected to remain steady since Canadian wheat variety registration requirements and/or designation will not be affected by the changes that the Canadian Wheat Board is undergoing.

Pace of imports in 2011/2012 are 5% above the 5-year average and 7% above year 2010/2011 year's levels for the same time period (August – November). This increase is mostly the result of lower domestic supplies. Pace of US imports are 13% above the pace of imports for the previous year and for the 5 year average for the first four months of available trade data. Post estimates US imports for 2011/2012 to reach 430 TMT.

Imports increased in 2010/2011 to 413 TMT which represents a 4% increase over year 2009/2010 levels and an increase of 5% over the 5 year average of 389 TMT. Wheat products (on a grain equivalent basis) account for approximately 85% of the imports. Imports from the U.S. accounted for approximately 77% of total wheat imports to Canada (403 TMT, trade year basis). Nearly all wheat grain imports to Canada came from the United States (99%). The U.S. share of wheat product imports (on a grain equivalent basis) was 72% in 2010/2011 (on a trade year basis).

Exports

Wheat exports in 2012/2013 are forecast to reach 18,000 TMT, a 3% increase from year 2011/2012 estimated levels and are consistent with the 5-year average of 18 MMT. This increase is attributed mainly to an increase in supply resulting from an increase in production.

Low carry-in stocks and a limited increase in production will limit total exports in 2011/2012. While the pace of exports in 2011/2012 is 6% below the 5 year average of 18.0 MMT, it is slightly above the previous year's (2010/2011) export levels. Post estimates total wheat exports in 2011/2012 to reach 17,400 TMT.

Wheat exports fell to 16,576 TMT in 2010/2011. This is 8% below the 5-year average and 12% below the previous year. Supply limited exports. Supply was smaller than usual due to production problems and low carry-in stocks.

Domestic Consumption

Post forecasts domestic consumption of wheat in 2012/2013 at 8,610 TMT, which represents a marginal decrease of 2% from the domestic consumption levels estimated for 2011/2012. Wheat for feed use is forecasted to remain above the 5-year average, but is forecast to fall 6% to 3,700 TMT from year 2011/2012 estimated levels. Wheat for food, seed, and industrial use is forecast at 4,910 TMT in 2012/2013, similar to year 2011/2012 estimated levels. No increase in wheat for biofuel usage is expected at this time as there are no new wheat-feedstock biofuel plants scheduled to go on-line in 2012/2013.

Domestic consumption of wheat in 2011/2012 is estimated to increase to 8,780 TMT which represents nearly a 15% increase over year 2010/2011 levels. Feed use is expected to reach 3,916 TMT (an increase of 20% over year 2010/2011 levels) while food, seed, and industrial use is expected to increase almost 10% from 2010/2011 to reach 4,864 TMT. These increases are attributed to an increase in supply.

Domestic consumption of wheat in 2010/2011 fell from 2009/2010 levels but is in line with the five

year average. Total domestic consumption was 7,645 TMT, with feed accounting for 3,248 TMT and food, seed and industrial usage accounting for 4,397 TMT.

Stocks and Supply

Stocks in 2012/2013 are forecast to increase 4%, mostly as a result of an increase in supply resulting from a forecasted increase in production. Stocks in 2011/2012 are forecast to be drawn down 6% as a result of a slight increase in production not being able to compensate for low carry-in stocks.

BARLEY:

Production

Barley production in 2012/2013 is forecast to rise to 9,000 TMT as a result of a greater area seeded to barley resulting from price increases. This will bring production levels closer to the 5 –year average of 9,700 TMT. Weather and depressed prices has limited barley production in recent years. Changes to the Canadian Wheat Board may result in changes to the types of barley that Canadian producers plant as Canadian maltsters will be able to have more direct relationships with the Western Canadian barley producers.

Trade

Imports

Demand for barley imports has been relatively small and stable over time. Barley imports in 2012/2013 are forecast to be similar to levels estimated for 2011/2012 due to an increase in domestic supply resulting from increased production. Barley imports are forecast to reach 42 TMT in 2012/2013, the same level of barley imports expected in 2011/2012. Barley imports in 2010/2011 were 43 TMT. Nearly all barley imported into Canada comes from the United States.

Exports

Low supplies resulting from lower production has limited barley exports in recent years and kept barley exports well below the 5-year average of 1,655 TMT. Posts forecasts exports in 2012/2013 to reach 1,050 TMT, the same level of exports expected for 2011/2012. Despite the increase in production, barley exports in 2012/2013 will be limited by low supplies which are the result of very low carry-in stocks. Barley exports in 2010/2011 were 1,207 TMT.

Domestic Consumption

Total domestic consumption for barley in 2012/2013 is forecast to remain stable at 7,292 TMT, close to year 2011/2012 expected levels of 7,389 TMT. Total domestic consumption in 2010/2011 was 7,583

TMT. This is 7% below the five year average of 8,225 TMT. Domestic consumption has been limited by supply in recent years.

Nearly 85% of the domestic usage of barley is for feed purposes. Domestic consumption for feed use in 2012/2013 is forecast to remain close to 2011/2012 levels. There is some speculation in the industry that feed barley prices will become more volatile once the Western Canadian barley farmers are no longer required to market their barley for export purposes through the Canadian Wheat Board. This is because there is speculation that the ability of barley farmers to take advantage of occasionally higher prices in the export markets may introduce some volatility into the Canadian feed barley price prompting feed lot owners to hold fewer feeder calves.

Supply and Stocks

Lower supplies in recent years caused by lower production levels and steady domestic demand is forecast to result in extremely low carry-in stocks for 2012/2013. The forecast increase in production is forecast to help pull up stocks to 1,500 TMT, an increase of over 85%.

CORN:

Production

Corn production in 2012/2013 is forecast to lift slightly to 11,200 TMT from year 2011/2012 levels of 10,689 TMT. This forecasted 5% increase is due to less area seeded to winter wheat in Quebec in Ontario due to soggy fall planting conditions in 2011.

Trade

Imports

Corn imports are expected to rise in 2012/2013 to 1,650 TMT, an increase of nearly 18% above year estimated 2011/2012 corn import levels of 1,400 TMT. This increase is in part due to lower carry-in stocks and a return to more normal trends. The five year corn import average is approximately 2,170 TMT, 25% above forecasted 2012/2013 levels. Year 2010/2011 corn imports were 1,053 TMT and well below historical trends. High domestic supplies due to increased area seeded and unexpectedly high yields limited corn imports in 2010/2011. Nearly all corn imports come into Canada from the United States.

Exports

Exports in 2012/2013 are forecast to return to more normal levels due to smaller domestic supplies and a decreased demand from the United States as corn production recovers. Exports in 2012/2013 are forecast at 500 TMT, the same level expected for corn exports in 2011/2012, after historical high corn exports in 2010/2011 of 1,710 TMT. This jump in exports was due to high domestic supplies resulting from a bumper corn crop, as well as strong demand from the United States. The five year average for

corn exports is 577 TMT.

Domestic Consumption

Domestic consumption has remained relatively steady, although there has been an increasing usage of corn for industrial purposes due to the use of corn as a feedstock for biofuel production. This trend is forecast to continue in 2012/2013 with domestic consumption forecast at 11,850 TMT. This represents an increase of 2% over 2011/2012 levels of 11,617 TMT. Domestic consumption in 2010/2011 was 11,538 TMT.

Supply and Stocks

Stocks are forecast to increase in 2012/2013 by 40% due to increased production and a return to more normal corn export levels. Forecasted increases in production will more than off-set slightly lower carry-in stocks and supplies will increase 5% in 2012/2013. Stocks in 2011/2012 are expected to be drawn down a slight 2% to 1,250 TMT from 1,278 TMT.

OATS:

Production

Oats production is forecast to rebound in 2012/2013 on the assumption of drier planting conditions than have been experienced in the last two planting seasons. Oats production in 2012/2013 is forecast at 3,550 TMT, 18% higher than 2011/2012 production levels, and in line with the five year average of 3,500 TMT.

Trade

Imports

Increased supplies due to increased oats production in 2012/2013 are forecast to limit imports. Imports are forecast at 20 TMT, the same as import levels estimated for year 2011/2012. Imports in 2010/2011 were 25 TMT, above the 5 year average of 18 TMT, and the increase was the result of poor production in Canada in 2010. Nearly all oats imports into Canada are from the United States.

Exports

Oats exports in 2012/2013 are forecast to increase above 2011/2012 levels due to increased supplies resulting from increased production being able to offset low carry-in stocks, as well as continued strong demand from the United States. Exports for 2012/2013 are forecast at 1,500 TMT, a 3% increase above year 2011/2012 estimated export levels of 1,450 TMT, but remain below the 5 year average of 1,827 TMT. The estimated 5% increase in export levels in 2011/2012 above 2010/2011 levels are the result of increased supplies resulting from increased production, as well as an increased in demand from the United States due to lower U.S. supplies. Low production due to wet planting conditions in 2010/2011

resulted in low supplies which limited exports. Oat exports in 2010/2011 were 1,374 TMT, well below the 5-year average of 1,827 TMT.

Domestic Consumption

Reduced domestic demand, in part due to large amount of feed wheat available, has resulted in domestic consumption falling in recent years and remaining well below the 5 year average of 1,902 TMT. Higher production forecast in 2012/2013 is expected to lift domestic consumption to 1,670 TMT, 8% above 2011/2012 estimated levels of 1,536 TMT. This increase is largely attributed to an increase in feed usage (an increase of 10% over 2011/2012 levels). Domestic consumption of oats in 2010/2011 was at a 5-year low at 1,532 TMT. Lower supplies due to poor production limited domestic usage.

Supply and Stocks

Lower than average stocks levels combined with low production levels in the last three years have limited oats exports and domestic consumption usage. Stocks in 2012/2013 are forecast to increase as a forecasted increase in production will more than offset relatively low carry-in stocks. Stocks in 2012/2013 are expected to grow to 1,200 TMT.

POLICY:

For the past 68 years, the Canadian Wheat Board (CWB) has marketed all wheat and barley grown in the provinces of Manitoba, Saskatchewan, Alberta, and the Peace River area in British Columbia. Under the Canadian Wheat Board Act, it had the exclusive right to purchase and sell the wheat and barley that is for domestic food use or export. This will all change as of August 1, 2012.

On December 15, 2011 Canadian legislators passed into law the divisive *Marketing Freedom for Grain Farmers Act* which transitions the Canadian Wheat Board (CWB) from a state trading enterprise into a commercial enterprise over a period of five years. Under the new framework, if the CWB fails to become a viable commercial entity within five years, the CWB will be dissolved.

The legislation consists of 5 parts which introduce legislative changes in stages. The first stage has already occurred with the restructuring of the Board and putting in place 5 government appointed directors. In addition, farmers can now also make contracts for delivery after the new crop year has begun (August 1, 2012) with whomever they wish. A detailed description of this legislation is available at the following URL address: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Bill%20C-18%20-%20The%20Marketing%20Freedom%20for%20Grain%20Farmers%20Act_Ottawa_Canada_11-03-2011.pdf

During the period of transition, the CWB will continue to have its borrowing and other financing by the Canadian government. In addition, Canadian producers who contract with the Canadian Wheat Board will continue to receive government approved and guaranteed initial payment early in the crop year (to help with operating expenses) and receive subsequent payments based on the crop that the CWB is able

to sell on world markets. If the CWB fails to make sales to cover the initial payments, the government covers the cost. The *Marketing Freedom for Grain Farmers Act* ends the government guarantees/backing of the CWB's borrowing, as well as the government-backed initial payments after a period of five years.

The legislation is currently being implemented and the Canadian grain industry is slowly beginning the transition. It is not only the way that Western Canadian wheat and barley contract their grain that has changed with the reforms to the Canadian Wheat Board, but there will be changes to infrastructure, services, and transportation services that were previously handled by the Canadian Wheat Board. While futures trading on wheat contracts have begun, the willingness to switch from the Canadian Wheat Board pools to contracting with grain companies may be tempered by some legal uncertainties. There are a number of court challenges in both federal and provincial courts that have introduced a small degree of uncertainty into how things will unfold. Nevertheless, Canadian grain companies have been making strategic purchases recently to prepare for August 1, 2012.

Additional reports on the Canadian Wheat Board's transition to a commercial entity can be found at the following URL Address:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Marketing%20Freedom%20for%20Grain%20Farmers%20Act%20Becomes%20Law_Ottawa_Canada_12-19-2011.pdf

STATISTICS:

Wheat Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8,269	8,269	8,545	8,544		9,450
Beginning Stocks	7,829	7,829	7,189	7,189		6,700
Production	23,167	23,167	25,260	25,261		26,500
MY Imports	429	413	400	430		410
TY Imports	429	404	400	430		410
TY Imp. from U.S.	330	309	0	340		330
Total Supply	31,425	31,409	32,849	32,880		33,610
MY Exports	16,575	16,575	18,000	17,400		18,000
TY Exports	16,768	16,768	18,000	17,400		18,000
Feed and Residual	2,811	3,248	3,700	3,916		3,700
FSI Consumption	4,850	4,397	5,100	4,864		4,910
Total Consumption	7,661	7,645	8,800	8,780		8,610
Ending Stocks	7,189	7,189	6,049	6,700		7,000
Total Distribution	31,425	31,409	32,849	32,880		33,610
1000 HA, 1000 MT, MT/HA						

Barley Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,387	2,387	2,365	2,365		2,850
Beginning Stocks	2,583	2,583	1,441	1,441		800
Production	7,605	7,605	7,760	7,756		9,000
MY Imports	44	43	50	42		42
TY Imports	53	76	50	42		42
TY Imp. from U.S.	53	76	0	42		42
Total Supply	10,232	10,231	9,251	9,239		9,842
MY Exports	1,207	1,207	700	1,050		1,050
TY Exports	1,052	1,052	700	1,050		1,050
Feed and Residual	6,449	6,415	6,125	6,268		6,200
FSI Consumption	1,135	1,168	1,100	1,121		1,092
Total Consumption	7,584	7,583	7,225	7,389		7,292
Ending Stocks	1,441	1,441	1,326	800		1,500
Total Distribution	10,232	10,231	9,251	9,239		9,842
1000 HA, 1000 MT, MT/HA						

Com Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Sep 2010		Market Year Begin: Sep 2011		Market Year Begin: Sep 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,203	1,203	1,200	1,202		1,250
Beginning Stocks	1,758	1,758	1,278	1,278		1,250
Production	11,714	11,715	10,700	10,689		11,200
MY Imports	949	1,053	1,400	1,400		1,650
TY Imports	974	1,077	1,400	1,400		1,650
TY Imp. from U.S.	973	1,074	0	1,400		1,650
Total Supply	14,421	14,526	13,378	13,367		14,100
MY Exports	1,709	1,710	500	500		500
TY Exports	1,657	1,658	500	500		500
Feed and Residual	6,674	6,976	6,600	7,003		7,186
FSI Consumption	4,760	4,562	4,900	4,614		4,664
Total Consumption	11,434	11,538	11,500	11,617		11,850
Ending Stocks	1,278	1,278	1,378	1,250		1,750
Total Distribution	14,421	14,526	13,378	13,367		14,100
1000 HA, 1000 MT, MT/HA						

Oats Canada	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	906	906	1,030	1,030		1,250
Beginning Stocks	1,170	1,170	773	769		800
Production	2,480	2,480	3,000	2,997		3,550
MY Imports	24	25	15	20		20
TY Imports	18	18	15	20		20
TY Imp. from U.S.	18	18	0	20		20
Total Supply	3,674	3,675	3,788	3,786		4,370
MY Exports	1,376	1,374	1,550	1,450		1,500
TY Exports	1,497	1,497	1,500	1,450		1,500
Feed and Residual	775	817	700	820		900
FSI Consumption	750	715	700	716		770
Total Consumption	1,525	1,532	1,400	1,536		1,670
Ending Stocks	773	769	838	800		1,200
Total Distribution	3,674	3,675	3,788	3,786		4,370
1000 HA, 1000 MT, MT/HA						